

February 21, 2024

## SGH Realty LLP: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	421.00	500.00	[ICRA]A-(Stable); reaffirmed/assigned
Long-term – Interchangeable	(100.00) #	0.00	-
Long-term – Fund-based – Overdraft	0.00	50.00	[ICRA]A-(Stable); assigned
Long-term – Interchangeable	0.00	(10.00) **	[ICRA]A-(Stable); assigned
Long-term – Fund-based/ Non-fund-based limits	9.00	0.00	-
<b>Total</b>	<b>430.00</b>	<b>550.00</b>	

\*Instrument details are provided in Annexure-I

# Includes three facilities (dropline overdraft, letter of credit, bank guarantee) which are sublimit to the term loan facility

\*\*Includes two facilities (letter of credit, Bank guarantee) which are sublimit to the Overdraft facility

### Rationale

The rating reaffirmation for SGH Realty LLP (SRL) factors in the healthy committed occupancy, comfortable debt protection metrics and attractive location of the property. The firm has healthy leasing occupancy of 94% as of December 2023, with the remaining area expected to be leased in the medium term. The trading occupancy is 78% as of December 2023 and is likely to improve to ~90% by March 2024. Backed by healthy leasing, SRL has refinanced its construction finance loan with a lease rental discounting (LRD) loan in August 2023. The firm's leverage [total external debt/annualised net operating income (NOI)] is projected to be comfortable at 4.7-4.8 times as of March 2025. Consequently, the debt coverage indicators are estimated to remain healthy in the medium term.

The rating factors in the mall being operated under the Palladium brand of The Phoenix Mills Limited (PML) at an attractive and premium location in Ahmedabad, i.e., SG Highway. The good connectivity and attractive catchment area are likely to support healthy footfalls. The mall is operated by PML, 50% partner of SRL, which is one of the largest retail mall developers with strong brand strength and an operational track record of over three decades. The PML Group has established brands in the retail mall segment, such as Phoenix Palladium, Phoenix Palassio, Phoenix United and Phoenix Market City.

The ramp-up in footfalls and trading values remains to be seen as the mall has an operational track record of only one year. Two large anchor tenants are expected to start their operations from March 2024. It is also exposed to geographical and asset concentration risks, which are inherent in companies with single projects. The debt protection metrics would remain vulnerable to material changes in occupancy and interest rates.

The Stable outlook on the rating reflects ICRA's expectation that the firm will sustain its healthy occupancy levels, comfortable debt protection metrics and benefit from PML's expertise in mall operations.

### Key rating drivers and their description

#### Credit strengths

**Healthy leasing levels and comfortable debt protection metrics** – The firm has a healthy leasing occupancy of 94% and trading occupancy of 78% as of December 2023. With the remaining area planned to be leased in the medium term, the trading occupancy is expected to improve to ~90% by March 2024. Backed by healthy leasing, the firm has refinanced its construction

finance loan with LRD loan in August 2023. The leverage [total external debt/annualised net operating income (NOI)] is projected to be comfortable at 4.7-4.8 times as of March 2025. Consequently, the debt coverage indicators are estimated to remain healthy in the medium term.

**Location-specific advantage and good connectivity** – The mall has a chargeable area of ~7.5 lakh square feet (sft) and the property is located at a favourable and premium location in Ahmedabad, i.e., SG Highway. Further, the location has an attractive catchment area due to the presence of premium residential development nearby. The good connectivity and attractive catchment area are likely to support healthy footfalls.

**Strong business profile and established track record of PML in retail mall segment** – SRL is a 50:50 joint venture between PML and BSafal Group. The mall is operated by PML, which is one of the largest retail mall developers with strong brand strength and operational track record of over three decades. The PML Group has established brands in the retail mall segment, such as Phoenix Palladium, Phoenix Palassio, Phoenix United and Phoenix Market City.

### Credit challenges

**Geographical and asset concentration risks; vulnerability to external factors** – SRL is exposed to geographical and asset concentration risks, which are inherent in companies with single projects. In addition, its revenues are exposed to adverse macroeconomic and external conditions, which could impact the tenant’s business risk profiles.

**Susceptibility to changes in interest rates and occupancy** – While the committed occupancy for SRL’s mall remains healthy at 94% as of December 2023, the debt protection metrics would remain vulnerable to material changes in occupancy and interest rates.

### Liquidity position: Adequate

SRL’s liquidity position is adequate. The firm has debt repayment obligations of Rs. 3.6 crore in FY2024 and around Rs. 12.6 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if higher occupancy levels are sustained, along with healthy improvement in footfalls and trading values resulting in improved cash flow from operations and debt protection metrics on a sustained basis. Specific credit metrics that could lead to rating upgrade include 5-year average DSCR of more than 1.3 times on a sustained basis.

**Negative factors** – Negative pressure on the rating could emerge if there is material decline in occupancy or rent rates and/or significant increase in indebtedness resulting in weakening of debt coverage and leverage metrics. Specific credit metric that could lead to a downgrade is Total debt/NOI greater than 6.5 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Realty - Lease Rental Discounting (LRD)</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

### About the LLP

SGH Realty LLP (SRL), a limited liability partnership firm incorporated in 2017, is jointly owned by The Phoenix Mills Limited and BSafal Group. The firm operates a retail mall – Palladium – in Ahmedabad, Gujarat, which was built on a land parcel of 5.2 acres and has leasable area of ~7.5 lakh sft. The mall started operations in February 2023 and has committed leasing occupancy of 94% and trading occupancy of 78% as on December 31, 2023.

### Key financial indicators (audited)

Not applicable as mall got operational in February and FY2024 will be first full year of operations for the firm.

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 21, 2024	Mar 10, 2023	Dec 17, 2021	Sep 4, 2020	
1 Term loans	Long term	500.00	467.7	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	
2 Fund-based/Non-fund based facilities#	Long term	-	-	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	
3 Fund-based/Non-fund based facilities	Long term	-	-	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	
4 Fund-based – Overdraft	Long term	50.00	25.7	[ICRA]A-(Stable)	-	-	-	
5 Interchangeable	Long term	(10.00)*	-	[ICRA]A-(Stable)	-	-	-	

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### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loans	Simple
Long-term – Fund-based – Overdraft	Simple
Long-term Interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	2023	NA	2033	500.00	[ICRA]A- (Stable)
NA	Fund-based – Overdraft	NA	NA	NA	50.00	[ICRA]A- (Stable)
NA	Interchangeable*	NA	NA	NA	(10.00)	[ICRA]A- (Stable)

Source: Firm; \*Includes two facilities (letter of credit, Bank guarantee) which are sublimit to the Overdraft facility

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis - Not applicable**

## ANALYST CONTACTS

**Rajeshwar Burla**  
+91 40 6939 6443  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Anupama Reddy**  
+91 40 6939 6427  
[anupama.reddy@icraindia.com](mailto:anupama.reddy@icraindia.com)

**Abhishek Lahoti**  
+91 40 6939 6433  
[abhishek.lahoti@icraindia.com](mailto:abhishek.lahoti@icraindia.com)

**Rabbani Mohammed D**  
+91 40 6939 6422  
[d.rabbani@icraindia.com](mailto:d.rabbani@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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